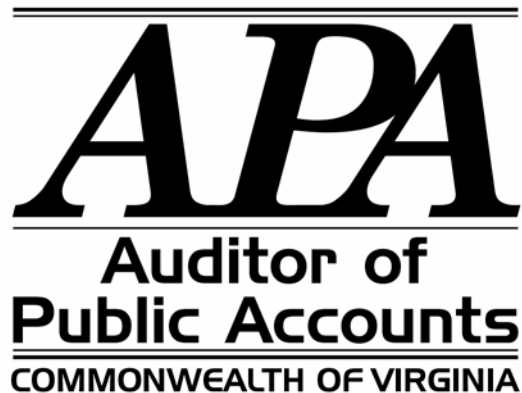


**DEPARTMENT OF MINORITY BUSINESS ENTERPRISE**

**REPORT ON AUDIT**

**FOR THE PERIOD**

**JULY 1, 2004 THROUGH JANUARY 31, 2006**



## **AUDIT SUMMARY**

Our audit of the Department of Minority Business Enterprise for the period July 1, 2004, through January 31, 2006, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and
- matters involving compliance and internal control and its operation that we have communicated to management in the Internal Control Findings and Recommendations section of this report.

### **Status of Prior Findings and Recommendations**

Our audit of the Department of Minority Business Enterprise continued to find many of the same problems with internal control and compliance during fiscal year 2005 that we discussed in prior reports. We did not repeat most of the findings included in the “Consolidate Fiscal and Procurement Operations with Another Agency” recommendation because, as of July 1, 2005, the Department of Housing and Community Development (Housing) assumed responsibility for the fiscal and human resource functions of the Department of Minority Business Enterprise (Department). We have noted improvements in the Department’s fiscal operations since Housing took on these responsibilities. However, we recommend the Department and Housing enhance their Memorandum of Agreement to correct the remaining internal control weaknesses in the Department’s operations.

In addition, the Department has not completed corrective action on the previously reported findings “Update Memorandum of Understanding and Funding Plan” and “Improve Controls over Cell Phone Usage.” Therefore, we have reissued those findings in our report.

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## **INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS**

### **Update on Prior Year Recommendation to Consolidate Fiscal and Procurement Operations**

Our audit continued to find many of the same problems with internal control and compliance during fiscal year 2005 that we discussed in prior reports. We did not repeat most of the findings because, as of July 1, 2005, the Department of Housing and Community Development (Housing) assumed responsibility for the fiscal and human resource functions of the Department. We have noted improvements in the Department's fiscal operations since Housing took on these responsibilities.

The internal control weaknesses over the Department's fiscal and procurement operations included in our last report continued to exist until July 1, 2005. Significant changes in the internal control environment continue to occur with personnel changes made in the Department during January 2006.

### **Enhance the Housing Agreement**

The Department and Housing need to address several areas to correct the remaining internal control weaknesses:

- The Department and Housing should update the Memorandum of Agreement to indicate that Housing should ensure that all transactions comply with the Department's policies and procedures before processing the transactions. The agreement should clearly indicate how Housing will communicate exceptions to the policies and procedures and if the parties cannot resolve the issue, how Housing will document the exception.
- The current agreement indicates that Housing will update the Department's accounting policies and procedures; however, Housing has not completed this task. Housing should update the Department's accounting policies and procedures to reflect the current operations of the Department and the flow of transactions between the two agencies, including documenting who has the authority to initiate and approve transactions at the Department. Further, the Department should develop policies regarding discretionary promotional expenses, have them approved by the Secretary of Administration, and provide them to Housing to ensure they have appropriate guidance for exercising oversight over expenses.
- The current agreement indicates that Housing will "provide procurement services, as may be requested" by the Department. As we continue to note internal control and compliance problems with regard to the Department's procurement process, we recommend the Department and Housing change the agreement to indicate that Housing will provide oversight to the Department's procurement process to ensure the Department has followed all Commonwealth procurement guidelines.
- Several employees at the Department continue to have access to process transactions in the Commonwealth Accounting and Reporting System. As Housing is now responsible for processing all transactions in the system, the Department and Housing should change this access to prevent unauthorized transactions from occurring.

### **Update Memorandum of Understanding and Funding Plan with the Department of Transportation**

The Department receives funding from the Department of Transportation to support a portion of its activities to help certify and assist minority contractors in doing business with Transportation. There is a

Memorandum of Agreement and Understanding between the Department and Transportation, which outlines the objectives of the relationship between the two agencies. During our last audit, we recommended the Department and Transportation update the agreement to address funding and appropriate activities. In addition, we recommended the Department restore \$239,219 in funding transferred by the Department from the Highway Maintenance and Operating Fund to a special revenue fund.

During fiscal year 2006, the Department and Transportation updated the agreement, but did not adequately address the funding arrangement and appropriate use of the funds. The Department also did not restore the \$239,219 to the Highway Maintenance and Operating Fund. Further, during fiscal year 2005, the Department transferred an additional \$55,000 of unused funds from the Highway Maintenance and Operating Fund to the special revenue fund. The \$294,219 remains in the special revenue fund as of January 31, 2006.

The Department of Planning and Budget should restore the \$294,219 remaining in the special revenue fund as of January 31, 2006 to the Highway Maintenance and Operating Fund. We continue to recommend that the Department and Transportation update the agreement to address the funding and appropriate activities. Specifically, the agreement should address the timing of funding, the allowable activities covered by the funds, the allocation of the funds related to operating activities, and the disposition of unspent appropriations at year end. Regardless of how the Department and Transportation change the agreement, the Department should include the funding of this agreement in the Governor's Executive Budget.

#### Improve Controls over Cell Phone Usage

In our last report, we recommended that the Department follow and enforce its policies and procedures concerning the usage of cell phones by its employees. The Department updated its policies during fiscal year 2005 and made improvements in the internal controls over cell phone usage; however, the issues indicated below remain related to the usage of cell phones by the Department's employees and the lack of oversight over this process.

- The Department does not consistently apply the controls from month to month or across cell phone users.
- The Department is not conducting timely reviews of wireless service charges.
- The employee conducting reviews of the wireless service charges signs off as the reviewer of his own wireless service charges.
- Employees are not receiving Director or Supervisor approval prior to exceeding their wireless service plan allotment as required by the Department's policies and procedures.
- While in some cases, the reviewer indicated that excess charges for roaming and minutes exceeded the wireless service plan allotment, neither the reviewer nor employee provided a justification for the additional charges as required by the Department's policies and procedures.

We continue to recommend the Department improve controls surrounding cell phone usage. The Department should consistently follow and enforce its policies and procedures and conduct more timely reviews of wireless service charges. Further, we recommend that the director review the charges of the employee responsible for reviewing the monthly wireless service charges.

## **AGENCY HIGHLIGHTS**

The Department of Minority Business Enterprise assists in the establishment and promotion of small, women, and minority-owned (SWAM) businesses throughout the Commonwealth. A SWAM business is an enterprise that has one or more socially and economically-disadvantaged persons as either the owner or individuals with controlling interest. The Department offers several areas of support, including procurement assistance, marketing, technical guidance, and financial services. As of July 1, 2005, the Department of Housing and Community development assumed responsibility for the fiscal and human resource functions of the Department.

The Department's primary sources of funding are General Fund appropriations and Highway Maintenance and Operating Funds provided by the Virginia Department of Transportation. The funds provided by Transportation support efforts to increase the participation of disadvantaged owned business enterprises in Virginia's federal transportation and construction industries. According to the Memorandum of Agreement and Understanding between the Department and Transportation, the Department is responsible for the following:

- selecting 75 firms for targeted management and technical assistance in cooperation with Transportation with the ultimate goal being self-sufficiency of the firms;
- marketing disadvantaged business enterprises resources and assistance available to existing and prospective firms;
- identifying potential firms for certification statewide and providing assistance in obtaining certification;
- compiling summary reports on assistance provided to the 75 firms and secondary firms and identifying major problems and strategies to address these trends;
- communicating significant problems to Transportation as they are identified;
- providing consulting, financial and other assistance to local governments that receive Transportation funding in determining local disadvantaged business enterprises availability, as requested by Transportation or localities; and
- providing Transportation with a monthly listing of disadvantaged business enterprises that includes a breakout of firms, work classes, location, and contact information.

## FINANCIAL INFORMATION

The schedules below summarize the Department's budgeted revenues and expenses compared with actual results for fiscal year 2005.

### Analysis of Budget and Actual Appropriations and Funding

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Funding Received</u>
General Fund appropriations	\$435,013	\$ 681,000	\$ 681,000
Highway maintenance and operating	-	1,270,539	1,266,144
Total resources	<u>\$435,013</u>	<u>\$1,951,539</u>	<u>\$1,947,144</u>

### Analysis of Budgeted and Actual Expenses

#### Minority Enterprise Industrial Development Services Program

<u>Program Expenses</u>			<u>Breakdown of Expenses by Funding Source</u>	
<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>General Fund</u>	<u>Highway Maintenance and Operating</u>
<u>\$435,013</u>	<u>\$1,951,539</u>	<u>\$1,488,565</u>	<u>\$282,399</u>	<u>\$1,206,166</u>

The schedule below summarizes the Department's expenses by program and type for fiscal year 2005.

### Analysis of Expenses by Type

#### Minority Enterprise Industrial Development Services Program

##### Expense Type

Personal services	\$1,206,807
Contractual services	150,274
Supplies and materials	14,575
Rent, insurance, and utilities	84,767
Equipment	<u>32,142</u>
Total expenses	<u>\$1,488,565</u>

During fiscal year 2005, the Department received additional General Fund and Highway Maintenance and Operating Fund appropriations. For the General Fund, the budget increase is attributable to the additional funding of the four positions to increase the number and value of procurement contracts offered by the Commonwealth to minority businesses. For the Highway Maintenance and Operating Fund, the budget increase reflects the funds transferred from Transportation under the interagency agreement for the Department to implement the disadvantaged business enterprise certification process. As in the previous year, the Department did not fill vacant positions, which contributed to the variance between budgeted and actual expenses.

#### Highway Maintenance and Operating Fund

The Department receives funding from the Department of Transportation to fund a portion of its activities to help certify and assist minority contractors in doing business with Transportation. During fiscal year 2005, the Department received \$1,266,144 for these activities, but only incurred actual expenses of \$1,206,166. The Department transferred \$55,000 of the remaining funds from the Highway Maintenance and Operating Fund to a special revenue fund.

As of January 31, 2006, the balance in the special revenue funds was \$396,399, of which the Department transferred \$294,219 from the Highway Maintenance and Operating Fund during fiscal years 2004 and 2005. The Department did not make any disbursements from the special revenue fund during fiscal year 2005 and through January 31, 2006. We recommend that the Department of Planning and Budget restore the \$294,219 to the Highway Maintenance and Operating Fund.





# Commonwealth of Virginia

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

May 2, 2006

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Minority Business Enterprise** for the period July 1, 2004 through January 31, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures (including payroll)	Transfers
Appropriations	Cash

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel and observation of the Department's operations. We inspected documents including reconciliations, purchase orders, invoices, contracts, and bank statements. We reviewed the appropriate sections of the Code of Virginia and the 2005 Virginia Acts of Assembly and confirmed the bank account balance. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

## Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

The Department has not completed corrective action with respect to the previously reported findings "Consolidate Fiscal and Procurement Operations with Another Agency," "Update Memorandum of Understanding and Funding Plan," and "Improve Controls over Cell Phone Usage." Accordingly, we have included these findings in the section entitled "Internal Control and Compliance Findings and Recommendations." The Department has taken adequate corrective action with respect to the audit finding reported in the prior year not repeated in this report.

## EXIT CONFERENCE

We discussed this report with management on May 15, 2006. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS



Timothy M. Kaine  
Governor

# COMMONWEALTH of VIRGINIA

Stacy L. Burrs  
Director

## *Department Of Minority Business Enterprise*

200-202 N. Ninth Street, 11<sup>th</sup> Floor

Richmond, Virginia 23219

Viola O. Baskerville  
Secretary of Administration

May 22, 2006

Walter J. Kucharski  
Auditor of Public Accounts  
101 North 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23219

Dear Mr. Kucharski:

In my capacity as Director of the Virginia Department of Minority Business Enterprise, I have reviewed the findings and recommendations provided by the Auditor or Public Accounts in this report. I generally concur with the findings and recommendations included in the audit review for the period July 1, 2004 - January 31, 2006.

In addition, I would like to emphasize the fact our agency is fully committed to addressing the findings in this report, as well as all relevant prior findings. We have interviewed candidates and will soon hire a business manager who will focus on implementing best practices at the agency level as we continue our relationship with the Department of Housing and Community Development. This business manager will provide the additional focus needed to ensure that the appropriate policies and procedures are developed and implemented.

Sincerely,

A handwritten signature in black ink, appearing to be "Stacy L. Burrs", written over a circular stamp or seal.

Stacy L. Burrs  
Director

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

OFFICIAL

Stacy Burrs  
Director